

## **Labour Coalition on Pensions**

### **Presentation to the Standing Policy Committee on Economic Development and Finance**

**October 7, 2002**

#### **Explanatory Notes**

The Labour Coalition on Pensions is appearing in front of the Committee to make a presentation on the Local Authorities Pension Plan (LAPP). The LAPP is the largest pension plan in Alberta, with 90,000 participating employees, 28,000 pensioners, and about 400 employers. The Coalition is composed of the unions that represent most of the employees covered by the LAPP.

The LAPP is one of the family of public sector pension plans covered by the Public Sector Pension Plans Act ("The Act"). This legislation gives the Government of Alberta, as represented by the Minister of Finance, final say over most aspect of the plans. The Act also, however, provides for the LAPP to move "out of statute" and become an independent plan governed by the same legislation that covers private sector pension plans in Alberta.

These provisions in The Act reflect a deal reached by the Government, the LAPP Employers, and the Unions representing workers in the LAPP. This deal was a result of the pension crisis of the early 1990s. Until that time, the pension plans had never been properly funded, as various governments failed to separate pension contributions from General Revenue. As a result of this practice, all of the public sector plans had sizeable unfunded liabilities. The size of these unfunded liabilities (several billion dollars) threatened the continuing viability of the plans, and their ability to honour the pension obligations owed to public sector employees.

To save the pension plans, unions and public sector employers agreed to help the government pay off these funding deficiencies. In addition, employees - through their unions - agreed to share in the risk of future unfunded liabilities.

In accepting this financial risk, public sector workers were making a major concession to the government and employers. In most private sector defined benefit pension plans, the employer bears responsibility for the pension fund. If the pension plan develops an unfunded liability, the employer is obliged, by law, to make up the deficiency.

In return for taking on this financial responsibility, the employees were promised that the government would remove itself from the picture and they would share control of the pension plan with their employers. Presenting Bill 68, The Public Sector Pension Plans Act, to the Legislature on May 11, 1993, then Treasurer Jim Dinning said:

*It provides in some cases, Mr. Speaker, the opportunity for transition such that if at the choice of the members of that plan, the members of the various boards, they wish to opt to run their own*

*pension plan, make their own set of arrangements, then there are transitional arrangements spelled out in the document.*

The LAPP's move to independence from the Government was supposed to occur once appropriate preparations had been made. On June 5, 1997, the Board of Trustees of the Local Authorities Pension Plan passed the following motion:

*LAPP Board resolves that the plan will terminate effective 000 hrs. January 1, 2000.*

This motion marked the beginning of the transition to a new, independent pension plan. In the previous months, the Board had gone through all the steps required in legislation. The consent of plan stakeholders - employers and employees - was obtained, and the necessary legislation was drafted. At the last minute, however, Alberta Treasury suddenly intervened. Saying that the government had concerns about the "governance structure" of the new plan, the Department commissioned a study by Ontario pension consultants ("The Cortex Report"). In November of 1999, these consultants produced an analysis of the plan that suggested an entirely new structure. Unfortunately, they chose not consult with any of the stakeholders in the plan. When Treasury then proposed guidelines for a new governance structure based on the Cortex Report, the Labour Coalition on Pensions rejected the new proposal on two grounds.

In the first place, we felt that Treasury's suggested governance structure was unnecessarily complex and bureaucratic. The structure contained in the Board's plan was similar to the one that had worked perfectly well since 1992 (except that the government no longer had any significant role in the plan). It was also similar to several other large, independent public sector plans in other parts of Canada.

In the second place, the Coalition believed that Treasury should not have been trying to dictate the form of the new pension plan. The Board's proposal for independence had been worked out by both Employer and Employee representatives, and had been endorsed by both Employers and Unions. Since the government was no longer paying any money into the pension plan (except indirectly, by funding Local Authorities employers), and since the employees had fulfilled their part of the bargain by accepting the financial risk for unfunded liabilities, we believed that Treasury and the Government should leave the parties to make their own pension arrangements.

Treasury refused to withdraw its objections to the LAP Board's proposal, and since the government could veto any changes to the plan, the independence process seemed to have reached an impasse.

In the fall of 2000, however, Alberta Treasurer Steve West invited representatives of the Labour Coalition on Pensions to a meeting. At this meeting the Minister confirmed the position of the three previous Provincial Treasurers: that the government has no business running the pension plans of public sector workers.

West was prepared to go further than previous Ministers. Noting that the independence process had dragged on for a number of years, he asked the Coalition members at the meeting if the bureaucracy at Treasury was interfering in the process. When we replied that, to some extent, Treasury seemed to want to maintain control over the plan, the Minister offered to assist in expediting the LAPP's move to independence.

With the help of the Minister, representatives of employers and employees in the LAPP met to engage in face-to-face negotiations on the future of the pension plan. During the summer of 2001, the parties out hammered an agreement that both parties found acceptable. This agreement was contained in a Memorandum of Understanding.

In the fall of 2001, Alberta Finance (formerly Alberta Treasury) informed employer and employee representatives that the Memorandum of Understanding was not an acceptable model for LAPP independence. This effectively put an end to direct negotiations between the employees and employers, and reasserted the control of the Finance bureaucracy. Since that time, the Coalition has met once with the LAPP employer group, and once with representatives of the Department of Finance. At present, there are no new initiatives being brought forward on LAPP independence.

Even though the preconditions for an independent LAPP have been met, and even though successive Provincial Treasurers have reaffirmed the right of the LAPP move out of statute, Alberta Finance has not acted to facilitate this process. On the contrary, the Department has vetoed the two proposals that have come forward, and reaffirmed its right to reject future initiatives that don't meet its criteria. Nor has the Department shown any willingness to sit down with the Coalition and the LAPP Employers to work out a compromise.

The funds contained in the Local Authorities Pension plan are held in trust for the sole purpose of providing pensions to the employees, most of who are represented by the unions in the Coalition. It is their money, not the Government's. By answering proposals for independence with vetoes and ultimatums, the bureaucracy at Alberta Finance is reasserting its control over the LAPP, and avoiding the Department's obligation to divest itself of the pension plan.

The Labour Coalition on Pensions is appearing in front of the Standing Policy Committee on Economic Development and Finance to request your assistance in completing the pension deal reached with the Government of Alberta a decade ago. In order to provide background information for the Committee, we are attaching to these Notes documents outlining some of the history of the LAPP move to independence. We thank the Committee for the opportunity to present our problem.